

Message Text

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ACTION EB-06

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P R 130931Z NOV 74

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC PRIORITY 3433

INFO AMEMBASSY SEOUL

AMEMBASSY TOKYO

AMEMBASSY MANILA

AMEMBASSY BANGKOK

AMEMBASSY SINGAPORE

AMCONSUL HONG KONG

USLO PEKING

S E C R E T SECTION 1 OF 2 TAIPEI 6843

E.O. 11652: GDS

TAGS: ETRD, TW

SUBJECT: COTTON CONTRACT PROBLEM

SINGAPORE FOR MICHAEL B. SMITH

REFS: A) TAIPEI 6774, B) STATE 243685, C) STATE 242394,

D) STATE 241237, E) STATE 241119

1. SUMMARY: AS RESULT OF FOUR HOUR MEETING NOVEMBER 11 BETWEEN ECONCOUNS, AGATT, AND SMITH AND BOARD OF FOREIGN TRADE (BOFT) AND TAIWAN COTTON SPINNERS ASSN. (TCSA), PROCEDURES HAVE BEEN ESTABLISHED BY BOFT WHICH EMBASSY BELIEVES WILL LEAD TO ACCEPTABLE RESOLUTION OF COTTON CONTRACT PROBLEM. BOFT WILL EXERT MAXIMUM POSSIBLE LEVERAGE ON FINANCIALLY SOUND MILLS TO OPEN L/C'S AND WILL ASSIST WEAKER MILLS IN OBTAINING LOANS TO ENABLE THEM TO HONOR CONTRACTS. BOFT WILL REPORT TO EMBASSY BI-WEEKLY ON RESULTS ITS EFFORTS. EMBASSY IS CONVINCED THAT GROC,

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INCLUDING THE PREMIER, IS FULLY AWARE OF SERIOUSNESS

OF PROBLEM AND IS DETERMINED TO RESOLVE IT. END SUMMARY.

2. ECONCOUNS, AGATT, AND SMITH MET WITH ACTING DIRECTOR OF BOFT, H.K. SHAO (SHAO HSUEN-KUEN), AND REPRESENTATIVES TSCA FOR NEARLY FOUR HOURS NOVEMBER 11 TO DISCUSS OVERDUE COTTON CONTRACT PROBLEM. MAIN THRUST OF SHAO'S MORNING PRESENTATION WAS THAT ROC HAD NO "LEGAL" AUTHORITY TO INTERVENE IN COMMERCIAL TRANSACTIONS BUT THAT ROC WAS VERY MUCH AWARE OF THE POTENTIALLY SERIOUS POLITICAL PROBLEMS THESE CONTRACTS COULD CAUSE AND AS A RESULT, ROC WAS PREPARED TO BRING EVERY POSSIBLE PRESSURE TO BEAR ON MILLS TO HONOR CONTRACTS.

3. U.S. SIDE RESPONDED BY STATING THAT WHILE ROC MAY NOT, IN THE LEGAL SENSE, HAVE THE AUTHORITY TO "FORCE" THE MILLS TO HONOR THE CONTRACTS, FAILURE OF THE ROC TO SEE THIS PROBLEM SATISFACTORILY RESOLVED COULD BE VERY SERIOUS AND NOT IN THE INTEREST OF EITHER GOVERNMENT.

4. IN MORNING SESSION AN EFFORT WAS MADE TO RECONCILE DATA ON PROGRESS BEING MADE IN OPENING L/C'S ON OVERDUE CONTRACTS SUBMITTED BY US SHIPPERS WITH DATA MADE AVAILABLE BY TSCA. RECONCILIATION WAS IMPOSSIBLE AND IT WAS AGREED TO MEET AGAIN IN THE AFTERNOON, AT WHICH TIME SHAO PROPOSED SET OF PROCEDURES TO BE FOLLOWED TO ASSURE ROC MILLS HONORED CONTRACTS. THE PROCEDURES HE PROPOSED ARE AS FOLLOWS:

A. THE ROC WILL CONCERN ITSELF ONLY WITH OVERDUE COTTON CONTRACTS INVOLVING US REPEAT US GROWN COTTON. IN OTHER WORDS, THE ROC WILL NOT INTERVENE IN CONTRACTS HELD BY US SHIPPERS INVOLVING THIRD COUNTRY COTTON. COMMENT: US SIDE BRACKETED THAT PROPOSAL, INASMUCH AS WE WILL NEED GUIDANCE FROM THE DEPARTMENT AND FROM THE SHIPPERS ASSOCIATION IF THAT QUALIFICATION IS ACCEPTABLE BOTH LEGALLY AND POLITICALLY. WE BELIEVE THAT WE SHOULD ACCEPT THE ROC'S POSITION ON THIS MATTER BECAUSE, OTHERWISE, THE PROBLEM WOULD BECOME IMMEASURABLY MORE
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COMPLICATED AND PLACE THE ROC IN AN AWKWARD POLITICAL POSITION. HOWEVER, WE MADE IT VERY CLEAR TO ROC THAT ITS POSITION ON THIS MATTER WAS SUBJECT TO REVISION FROM OUR SIDE IF WE ARE SO INSTRUCTED.

B. THE BOFT WILL REVIEW LATEST LIST OF OVERDUE CONTRACTS (AS SUPPLIED BY AMERICAN COTTON SHIPPERS ASSN.) ON A CASE BY CASE BASIS. BOFT WILL

FIRST DETERMINE IF THERE ARE VALID CONTRACTS IN EACH AND EVERY CASE. BOTH SIDES AGREED THAT IF NO VALID CONTRACT EXISTS BETWEEN A US SUPPLIER AND ROC TEXTILE MILL, GROC WOULD NOT INTERVENE. ALSO, GROC WOULD NOT INTERVENE IN CONTRACTS BETWEEN US SHIPPER AND SHIPPER'S TAIWAN AGENT.

C. BOTH SIDES AGREED THAT IN CASES WHERE US SHIPPER HAS ALREADY INSTITUTED LEGAL ACTION IN ROC COURTS TO FORCE OPENING OF L/C, BOFT WOULD NOT INTERVENE UNTIL LEGAL PROCEEDINGS CONCLUDED.

D. IN CASES WHERE THERE IS LEGAL CONTRACT AND MILL IS OVERDUE, BOFT WILL BRING ALL POSSIBLE PRESSURE TO BEAR ON MILL TO HONOR CONTRACT (SEE BELOW).

E. BOFT WILL ARRANGE FINANCIAL ASSISTANCE TO FINANCIALLY TROUBLED MILLS HAVING OVERDUE CONTRACT PROBLEMS TO FACILITATE OPENING OF L/C, BY ESTABLISHING A SPECIAL LOAN FUND EITHER WITH BANK OF TAIWAN OR CENTRAL BANK. COMMENT: THIS IS THE KEY ELEMENT IN PROCEDURES. IT IS POSSIBLE THAT BOFT, BANK OF TAIWAN OR THE CENTRAL BANK MIGHT BE LEFT HOLDING COTTON IF THE MILLS CANNOT REPLY THE LOANS, BUT THIS IS GROC PROBLEM. ESSENTIAL ELEMENT HERE IS THAT L/C WILL BE OPENED WITH GROC FINANCIAL ASSISTANCE IF NECESSARY.

F. IN CASES WHERE MILL HAS OR IS PROVIDED RESOURCES TO OPEN L/C BUT STILL DELAYS, BOFT WILL TAKE ALL "NECESSARY ADMINISTRATIVE ACTION" TO PERSUADE MILL TO OPEN L/C, INCLUDING POSSIBLE SUSPENSION OF IMPORT AND EXPORT LICENSES, SUSPENSION OF
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CREDIT AND DUTY FORGIVENESS, ETC.

G. BOFT WILL ESTABLISH BI-WEEKLY REPORTING SYSTEM TO EMBASSY BEGINNING DECEMBER 1 ON PROGRESS MADE BY DELINQUENT MILLS, USING AS BASIC INPUT MATERIAL PROVIDED BY EMBASSY. COMMENT: THIS REPORTING SYSTEM WILL REQUIRE AMERICAN COTTON SHIPPERS ASSOCIATION (ACSA) CONTINUING TO PROVIDE AGATT WITH TIMELY AND UP-TO-DATE REPORTS ON OUTSTANDING UNFILLED CONTRACTS WITH THE FULLEST POSSIBLE DETAILS.

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ACTION EB-06

INFO OCT-01 EA-06 ISO-00 H-01 L-02 SS-15 NSC-05 AGR-05

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5. IN RESPONSE TO BOFT CLAIM THAT SEVERAL US SHIPPERS WERE RENEGING ON OSAKA ACGITRATION RULINGS OR A FAILURE TO DELIVER CONTRACTED COTTON, US SIDE AGREED TO RAISE THESE MATTERS WITH ACSA IMMEDIATELY UPON RECEIPT DETAILS FROM BOFT.

6. BOTH SIDES AGREED THAT ON CONTRACTUAL MATTERS NOW OR PREVIOUSLY BEFORE OSAKA OR LIVERPOOL ARBITRATION, NEITHER SIDE WOULD INTERVENE, BUT US INSISTED AND BOFT RELUCTANTLY AGREED THAT ANY SUCH DISPUTES WOULD NOT INFLUENCE OR AFFECT THE CONTRACT CAUSES OVERDUE. IN OTHER WORDS, WHATEVER PAST HISTORY WAS INVOLVED BETWEEN A PARTICULAR TAIWAN MILL AND A US SHIPPER, IF THE TWO NOW HAD AN OVERDUE COTTON CONTRACT PROBLEM, THAT PROBLEM STOOD ON ITS OWN MERITS AND HAD NO RELATIONSHIP TO ANY EARLIER DISPUTES.

7. EMBASSY COMMENTS: WE BELIEVE THE GROC IS NOW THOROUGHLY AWARE OF THE SERIOUSNESS WITH WHICH WE
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REGARD THE COTTON CONTRACT PROBLEM AND THAT IT RECOGNIZES, NOTWITHSTANDING ANY LEGAL NICETIES, THAT IT MUST SOLVE THE PROBLEM QUICKLY. THIS WAS REINFORCED ON NOVEMBER 13 WHEN THE PREMIER'S AIDE CALLED ON THE AMBASSADOR TO CONVEY THE PREMIER'S ASSURANCES THAT THE PROBLEM WAS RECEIVING HIS PERSONAL ATTENTION AND THAT THE GROC WILL DO ALL IT CAN TO HAVE THE CONTRACTS HONORED. SHAO MADE CLEAR THAT HE HAD INSTRUCTIONS FROM EXECUTIVE YUAN TO PROPOSE ABOVE PROCEDURES AS WELL AS TO COMMIT GROC TO EXTENDING FINANCIAL ASSISTANCE WHERE NECESSARY. SHAO IS ALSO AWARE THAT HE MUST AGGRESSIVELY FOLLOW UP ON THE ABOVE STEPS IF THE OVERDUE CONTRACTS ARE TO BE TAKEN CARE OF QUICKLY ENOUGH TO AVERT EVEN FURTHER POLITICAL PRESSURE FROM US.

8. ALSO, WHILE THE SUBJECT WAS NEVER MENTIONED, WE BELIEVE GROC VIEWS JURICH'S ABSENCE AS A CLEAR SIGN THAT COTTON CONTRACT PROBLEM AND THE NEW BILATERAL ARE SOMEHOW CONNECTED.

9. IN SUM, WE BELIEVE THE GROUNDWORK HAS BEEN FIRMLY ESTABLISHED FOR EVENTUAL RESOLUTION OF THE CONTRACT PROBLEM BUT CONTINUAL PRESSURE BY THE EMBASSY WILL BE APPLIED TO GET PROMPT AND DEFINITE RESULTS. OUR EFFORTS WILL BE GREATLY ASSISTED IF US COTTON SHIPPERS, KEEP US FULLY INFORMED ON ALL DETAILS OF OUTSTANDING CONTRACTS AS WELL AS ANY NEGOTIATIONS THE SHIPPERS AND THE TAIWAN MILLERS MAY HAVE SEPARATELY.
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